

DIRECT TESTIMONY

of

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Illinois-American Water Company.

Application for the Issuance of a Certificate of Public Convenience and Necessity to
Provide Water Service to the City of Grafton and Its Environs in Jersey County, Illinois,
and for the Approval of the Purchase of Certain Assets of the City of Grafton, in
Accordance with Section 8-406 of the Illinois Public Utilities Act.

Docket No. 13-0073

May 2, 2013

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Philip Rukosuev, and my business address is 527 E. Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am currently employed by the Illinois Commerce Commission (“ICC” or “Commission”) as a Rates Analyst in the Rates Department of the Financial Analysis Division. My responsibilities include rate design and cost of service analyses for electric, gas, water and sewer utilities and the preparation of testimony on rates and rate related matters.

Q. Please discuss your educational and professional background.

A. I received a B.A. in Economics and Business Administration (Magna Cum Laude) and a master’s degree in Accounting (with Highest Honors) from the University of Illinois at Springfield. I have been employed by the Commission since September of 2008. I have provided testimony and performed related ratemaking tasks. My testimony has addressed cost-of-service and rate design that concerns electric, gas, water and sewer utilities.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to present my recommendations regarding Illinois American Water Company's ("IAWC" or "Company") proposed water rates for the City of Grafton, the area for which it is requesting a Certificate of Public Convenience and Necessity ("Certificate").

Q. What information have you reviewed with respect to IAWC's requests in the instant proceeding?

A. I have reviewed the Company's Petition requesting a Certificate, including all the attached Exhibits. I also prepared data requests and reviewed the Company's responses to those requests.

PROPOSED CERTIFICATED AREA

Q. Please discuss the area for which the Company is requesting a Certificate.

A. On January 16, 2013 the Company filed a Petition requesting that the Commission grant a Certificate of Public Convenience and Necessity to transact a public utility business in connection therewith, pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/1-101 *et seq.*

The City of Grafton ("Grafton") is an Illinois municipal corporation located in Jersey Country, Illinois. Grafton currently owns, maintains and operates a potable water distribution which allows it to provide public water service to

approximately 398¹ customers, or 600 people (IAWC EXHIBIT 2.00, p. 7). IAWC and Grafton have entered into an Asset Purchase Agreement ("APA"). Pursuant to the APA, and subject to approval of the Illinois Commerce Commission, IAWC would acquire Grafton's water distribution system. As part of the transaction, IAWC seeks to obtain a Certificate of Public Convenience and Necessity. (*Id.* at 3). Because Grafton is adjacent to IAWC's existing Alton District, and since IAWC currently provides water to Grafton on a wholesale basis from the Alton District, the Grafton system would be incorporated into IAWC's Alton District, would be served from the Alton District's existing treatment facilities (*Id.* at 6), and would be served by IAWC's Alton District employees. (*Id.* at 4).

Finally, according to the Company, Grafton has determined that it is no longer willing or able to operate and manage the water system. Since IAWC is the nearest water provider, IAWC is willing to purchase the assets and begin operating the service upon approval from Commission. (*Id.* at 9).

PROPOSED WATER RATES

Q. What water rates will apply to customers within the area requested to be certificated in this proceeding?

A. The Company proposes that the new customers be subject to the tariff rates, rules, and regulations applicable to IAWC's Alton District, otherwise

¹ 5/8 inch meter – 328 customers (residential); 3/4 inch meter – 52 customers (commercial); 1 inch meter – 4 customers (commercial); 1 1/2 inch meter – 1 customer (commercial), 2 inch meter – 7 customers (large user); 3 inch meter – 1 customer (large user); 4 inch meter – 5 customers (large user). The Company is unaware of any unmetered customers. (Company Response to Staff DR PR 1.05).

known as Illinois Zone 1 District. (IAWC EXHIBIT 1.01). According to the Company:

Grafton is located in the Company's Zone 1 area, and therefore application of the Zone 1 rates is appropriate. The results from the Company's latest consolidation case, in Docket 11-0767, played a role in shaping the proposed rate structure and the rates in this proceeding for the area for which a certificate is requested to the extent that the consolidation affected the Zone 1 rates." (Company Response to Staff DR PR 1.22).

Grafton's rates and monthly bills based on various usage levels are presented in IAWC Exhibit 1.02. As shown, out of the total of 398 customers located in Grafton, 328 are residential customers, all of which are served by a 5/8" meter. According to IAWC Exhibit 1.01, for 5/8" meter customers, current Grafton rates are a \$12.00 fixed charge and \$6.30 per thousand gallons volumetric charge. In comparison, current Illinois Zone 1 District rates are a \$16.50 fixed charge and a \$5.1168 per thousand gallons volumetric charge.

Q. What is the estimated average total monthly bill for residents receiving water service in the area for which a certificate is requested?

A. The current average monthly water bill for 6,000 gallons of monthly water usage is \$49.80. Under the current rates in effect for Zone 1, the average water bill after the acquisition for 6,000 gallons will be \$50.45 (a difference of \$0.65 or 1.3%). The current rates for Grafton compare favorably with the proposed Zone 1 rates.

Q. How were the billing determinants computed?

A. According to the Company's Response to Staff DR PR 1.17, "[t]he Company's last rate case, Docket No. 11-0767, used the fully-forecasted test year ending September 30, 2013. Historic year (ended September 30, 2011) billing determinants were comprised of actual billing data for the nine months ended June 30, 2011, and budgeted July through September 2011 data." Accordingly, I have reviewed the following documents in order to verify the accuracy of the Company's statement:

1. PR 1.17 Attachment 1 - Attached portion of Schedule G-5 submitted with the Docket NO. 11-0767 rate filing for a description of the establishment of the rate case billing determinants.
2. PR 1.17 Attachment 2 - Attached Schedule E-4 showing the rate case billing units and customer growth.
3. PR 1.17 Attachment 3 - Attached Excel version of Schedule E-4.
4. PR 1.17 Attachment 4 - PR 1.17 Attachment 4, description of calculation of usage per customer per day - Docket No. 11-0767 IAWC Exhibit 5.00 pp. 9-10, the Direct Testimony of Rich Kerckhove.
5. PR 1.17 Attachment 5 – Docket No. 11-0767 Final Order E-4

Q. Are these billing determinants reasonable?

A. Yes. Based on the information and citations to the appropriate authority provided by the Company, and the fact that this information is based on the Commission's extensive review of testimony and briefs regarding the development of customer charges in Docket No. 11-0767, the proposed billing determinants are reasonable.

Q. Is the monthly Fire Protection rate shown on IAWC Exhibit 1.02 fair to Grafton customers?

A. Yes, the proposed Public Fire Protection rates are within the range of rates paid by Zone 1 customers, which is consistent with how rates were designed in Docket No. 11-0767.

Q. Should the water rates currently in effect for Zone 1 be approved for the area under consideration?

A. Yes. Based on my review, I am satisfied that IAWC has made the requisite demonstrations under Section 8-406 of the Act to support its position with respect to its proposed water rates for several reasons:

1. Based upon financial and administrative factors, Grafton has decided to cease owning and operating its water system.
2. Affected municipalities received notice of this proceeding in accordance with the Commission rules. None have entered an appearance.
3. In terms of proximity, IAWC has 12 service districts throughout the state, of which the Alton District is in the closest proximity to the area in question. Grafton is adjacent to IAWC's existing Alton District and will be served from the Alton District's existing treatment facilities. In fact, IAWC currently provides water to Grafton on a wholesale basis from the Alton District. (IAWC EXHIBIT 2.00, p. 4). Also, since Grafton is located in the Company's Zone 1 area, application of the Zone 1 rates is appropriate.
4. The proposed extension of services is the least-cost method of providing water service to customers in the proposed area. Since Grafton is

contiguous to the existing IAWC service area, I believe that another entity's duplication of facilities, rather than extension of mains, would be inconsistent with the least cost mandate of Section 8-406 (b) of the PUA.

5. According to Company Exhibit 1.3 attached to Mr. LaGrand's direct testimony, it appears that the Alton District rates produce a revenue requirement that is very close to what the revenue requirement would be if this were a stand-alone system for IAWC. I do not disagree with the revenues to be recovered through the water rates suggested by the Company because revenue requirement does not appear to be at issue, at least in the early years of IAWC's ownership of the Grafton water system. Staff witness Ostrander reviewed the assumptions and support for the Company's projected operating statements for Water service and found no reason to adjust the Company's revenue requirement. (Staff Exhibit 2.0).

6. It does not appear that the acquisition of the Grafton water system will adversely affect the rates paid by current Grafton customers. The average monthly bill per customer using the Company's proposed Alton District rates will be comparable, 1.3% different (See Appendix A). Grafton's proposed rates will allow IAWC to invest the needed capital, cover the operation and maintenance expenses, and earn an adequate return on the Company's investment.

Therefore, based on the information provided in this proceeding, I agree with the Company's proposed water rates for the proposed certificate area.

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167 **RECOMMENDATIONS**

168 **Q. What is your recommendation regarding rates for Grafton proposed**
169 **certificate area?**

170 A. I recommended that if the Commission approves IAWC's request for a certificate
171 of public convenience and necessity, the Commission should find that the
172 Company's proposed water rates for Grafton should conform to the tariffs for
173 water service in IAWC's Alton District. Because Grafton will become part of the
174 Alton District, I believe that it is appropriate that Grafton have the same rates.

175

176 My review in this docket did not include an analysis of the rate design of the Alton
177 District rates. These rates were reviewed in the context of its most recent rate
178 case, pursuant to Commission Order dated September 19, 2012, Docket No. 11-
179 0767, and the rates were determined to be just and reasonable at that time.

180

181 In addition, the Company should file the necessary tariffs for Grafton within ten
182 (10) days of the date of service of the Final Order if the certificate is approved,
183 with an effective date of not less than five (5) working days after the date of filing,
184 for service rendered on and after their effective date, with individual tariff sheets
185 to be corrected within that time period, if necessary.

186

187 **Q. Does this conclude your direct testimony in this proceeding?**

188 A. Yes.